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INDUSTRIAL PRODUCTION FIGURES

Product	Production in 1986	Production in 1986 as % of 1985
Electricity (b.kw.hrs)	1599	104%
Petroleum (inc. gas cond.)(mil. metric tons)	615	103
Nat. Gas (b.cu.mtr)	686	107
Coal (mil. metric tons)	751	103
Steel (mil. met. tons)	161	104
Fertilizer (mil.tons)	34.7	105
Metal-cutting tools (bil. rubles)	2.9	109
Robots (in 1000s)	15.1	114
Computer Technology (bil. rubles)	4.8	113
Tractors (mil. hp)	54.5	103
Paper (mil. metric tons)	6.2	103
Cement (mil. metric tons)	135	103
Meat(mil. metric tons)	11.5	107%
Margarine (mil. tons)	1.5	103
Watches (mils)	69.9	104
Radios (mils)	8.9	101
TV sets (mils)	9.4	100.7
Automobiles (mil.)	1.3	99.5

LIVESTOCK

(in millions)

	1/1/85	1/1/86	1/1/87	% Change
Cattle	121.0	120.9	121.9	100.8%
Cows	43.6	42.9	42.5	99.07
Hogs	77.9	77.8	80.0	102.8
Sheep & Goats	149.2	147.3	148.0	100.5

YEAR-END REPORT FOR SOVIET INDUSTRIAL AND AGRICULTURAL PRODUCTION FOR 1986

On the whole 1986 was a good year for the Soviet economy. A good year at least in comparison to 1985. The Soviets report that industrial output is up 4.9% compared to a plan of 4.3%. These aggregate figures are always suspect, but looking at output for individual industries also confirms that production has improved. Thus, as readers of this newsletter have been aware, petroleum production in 1986 was up 3% compared to a drop of 3% for 1985. Coal production is up 3% compared to 2% 1985. Steel production is up 4% whereas in 1985 production was basically the same as it was in 1984. Although there have been regional shortages, electrical production is up 4%, which is the same amount as the preceeding year.

One of the best bits of news Soviet consumers have is that the grain harvest is up to 210 million tons for 1986. This 20 million ton increase represents a 10% increase in production. While some of us may question the accuracy of that figure, it certainly is an improvement over preceeding years. In contrast however, raw cotton production diminished as did the output of sugarbeets.

On the negative side, natural gas output rose 7% percent for 1986 which by most standards would be a very satisfactory figure. However, in 1985 production rose 9% over 1984 so this does represent some drop.

There are some other interesting bits of information which come out of the production figures. For example, the volume of foreign trade in ruble terms dropped 8% compared to 1985. However, the absolute volume of trade in real terms rose 2%. That is a reflection of the drop in raw material and petroleum prices.

Other bits of information include the fact that the Russians have announced that they have begun production of personal computers although they are intended almost exclusively for industry. Another bit of information is the fact that the Soviets have announced that one million people were released from their jobs. Presumably they were transfered to other positions but this does indicate one more step in the reform process. However, in discussing the reforms, the statements from Soviet officials indicate that there is a good deal of dissatisfaction with how far the reforms have moved. To quote the official report, "the new management methods are still not being assimilated intensively enough and are not having the proper influence on the attainment of qualitatively new improvements in the development of the country's economy."

LIVESTOCK HERDS

The annual report of the number of livestock held by Soviet farmers shows a considerable improvement over last year. Whereas on January 1, 1986 all herds were lower than in January 1985, this year all herds, with the exception of cows, are higher than a year earlier, and the total number of cattle, sheep and goats is also higher than it was in January 1985.

IMPACT OF THE GORBACHEV CRACKDOWN ON DRINKING

According to the annual economic report for 1986, sales of non-alcoholic drinks rose 27% for the year, mineral water rose 22%, and fruit and vegetable juices up 43%. More importantly, the sale of alcoholic beverages, at least legal ones, was only 63% of what it had been in 1985.

CURRENCY FIGURES

Rubles Purchased Per 100	Jan 7 1987	Jan 21 1987
Austrian shilling	4.91	5.05
UK pound	98.59	98.69
FRG mark	34.60	35.55
US dollar	66.39	68.42
French franc	10.43	10.61
Japanese yen	.418	.427
Italian lira	.0496	.0499
Swiss franc	41.12	42.45

SOVIET BALANCE OF TRADE WITH EASTERN EUROPE FOR THE FIRST NINE MONTHS OF 1986

The Soviet balance of trade with Eastern Europe increased by over a billion rubles during the first nine months of 1986. The largest increase was of exports to Romania. Presumably the increase to Romania, as well as to the other East European countries, reflects an increase in the export of petroleum. It is entirely conceivable that the increase in exports reflects a diversion of petroleum from Western Europe to Eastern Europe.

ARDEN HOUSE PROGRAM

We now have the Arden House program completed. A copy of the program and an application form are enclosed. While we still expect to hear from several more U.S. government officials, we are quite pleased with the program as it exists now. In particular we are delighted that Senator Warner and Congressmen Aspin, Torricelli and Berman will be joining us. Other highlights will be the opening presentation by Fritz Ermarth, Special Assistant to the President and Senior Director, European and Soviet Affairs, National Security Council, and a session on joint ventures with individuals involved in the negotiating process.

Given the fact that Gorbachev's proposals have been so far-reaching and his potential impact on the society so monumental, this is a particularly important time to discuss his objectives.

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The Boston Globe

SUNDAY, FEBRUARY 1, 1987 A25

THE SOVIET UNION

Gorbachev charts a risky course

Khrushchev tried to reform the system, and look what happened to him

By Marshall I. Goldman
Special to the Globe

What is happening to the Soviet Union, the country we have come to despise and criticize? One day Mikhail Gorbachev personally calls the exiled Andrei Sakharov to say all is forgiven, come back to Moscow and work for the national good. (Since Sakharov had previously been denied a phone in his apartment, authorities in Gorky had to install one specifically for Gorbachev's call.) Next, the dancers Mikhail Baryshnikov, Natalia Makarovea and Valery Panov and the cellist-conductor Mstislov Rostropovich receive invitations to come back for guest performances on the Soviet stage. To top it off, last Tuesday, Gorbachev issues a call for secret elections and an end to yes and no ballots. If his proposal is implemented, henceforth there will be more than one candidate on ballots for republic and regional parties, as well as government positions. (But lest this go too far, apparently elections for Gorbachev's own position as general secretary of the Communist Party will still be handled in the old way.)

It almost seems as if Gorbachev is reinventing the Federalist Papers. He is doing all he can to create some rudimentary form of checks and balances. Of course, as bold as his proposals have been, Gorbachev is still a long way from the kind of pluralistic system we have evolved in the West. The nominees for

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Soviet

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election in the Soviet Union, even though there will soon be more than one, will probably still be pre-selected by superior party officials, and the voting, certainly in the party, will be open only to party members – that is, 10 percent of the adult population.

Why is Gorbachev doing all this? Some insist it is only to impress the West. Undoubtedly, Gorbachev did not ignore the fact that such moves would make a good impression. If he can push through his reforms, that will certainly improve his image here. Yet, he is also taking a risk if he should fail. This would simply be another instance where Soviet spokesmen have shouted "Sheep! Sheep!" but it turns out in fact to be the same old wolf.

Certainly, Gorbachev has an international agenda. We have seen that in the way he has sought to improve Soviet relations with China, Japan and Western Europe. He has also done more than most of his predecessors to indicate his eagerness to reach some form of accommodation with the United States on arms control. But for Gorbachev, economic reform is at the top of the agenda. He is determined to bring the Soviet economy into the 21st century, but he has discovered to his dismay that before he can do that, he must bring it into the 20th century – or at least the latter part of the 20th century. To do that, he needs not only economic reform, but also cultural and political reforms.

No one except the 20 or 30 men and one woman who sit in on the Politburo and Secretariat meetings knows exactly what goes on there. But it certainly seems that Gorbachev has been engaged in an internal stocktaking, asking himself what Soviet practices do and do not make sense. And given his recent actions, it certainly seems that he has concluded that a lot does not make sense.

Take Soviet policies toward the intellectuals. Gorbachev may well have concluded that the CIA had somehow managed to install a mole in charge of Kremlin policies toward intellectuals. How else can one explain a course that seems to have been deliberately designed to decapitate some of the best minds the Soviet Union has? What sense does it make in a world where innovative and creative ideas will determine future technological leadership to send those with those ideas to Siberia and Gorky, or even Vermont, Boston or New York? More often than not, it is the United States that becomes the beneficiary, since some of those scientists and engineers end up at Harvard, MIT, IBM or Digital Equipment. The realization that the Soviet Union is the loser explains, as much as anything can, the decision to invite the return of some of the country's prodigal sons.

Gorbachev seems to have made a similar calculation when he decided to call for more meaningful elections and secret ballots. To his quite obvious dismay, Gorbachev and the others in the Politburo have been shocked to see what happens when leaders are left in their jobs for excessive periods of time. The phenomenon is not unknown in our country. What usually happens is that those in charge begin to develop proprietary feelings about the domain under their jurisdiction. With time, even the judiciary and police, including the KBG, are compromised. When this happens, virtually all checks and balances are destroyed. There's seldom any court of appeal. The local officials turn into barons, and their fiefdoms turn into thiefdoms.

As a current look at the Soviet press indicates, this is exactly what happened in the Republic of Moldavia, the Ukraine and most of Central Asia, particularly Uzbekistan and Kazakhstan. In almost every case, the communist leaders in those areas were found to have devoted the bulk of their efforts to enriching their own families. There was over-reporting of production and rampant corruption and embezzlement. Privileges were issued to the favored, the chosen few, and there was virtually no recourse for those out of favor. In the meantime, the economy has suffered as resources have been improperly diverted and incentives thwarted.

The Soviet government knows this to be true, but who knows how much remains to be uncovered?

Whatever may come to his attention, Gorbachev has moved to clean up these clusters of corruption around the country. But that is hardly a long-term solution. Unless he can change the nature of the system, a new generation of barons will quickly form in the place of the old. That is why Gorbachev has moved to change the system and institute multi-candidate secret elections. If the new policies are implemented, the local leaders will have to live with the knowledge that if they are too abusive, they may be voted out of office.

Will the new system work? Assuming it is implemented, it will probably have some success. Yet, as even we here in Massachusetts or Chicago or Louisiana can testify, the secret ballot does not guarantee meaningful contests between candidates. More than that, Gorbachev has undoubtedly added another grievance to the list compiled by those unhappy with his radicalism. These Soviet hard-liners view Gorbachev's reforms much as very conservative Catholics view those of Vatican II: they worry that he is destroying the essence of the communist system. Gorbachev's call for elections for party offices elicits from Soviet bureaucrats a reaction similar to what American university professors might experience over a proposal to abolish the tenure system: How dare he intrude on my secure lifestyle? they ask. This proposal must be far more upsetting to bureaucrats than Gorbachev's allowing the return of the Sakharovs and Baryshnikovs who, after all, only a few weeks ago were reviled as traitors and turncoats.

Although some American observers argue that Gorbachev has nothing to worry about, there is good reason to suspect that he may already have compromised his future. He may yet go the way of Nikita Khrushchev. One of Khrushchev's biggest mistakes was to shake up the party and, among other things, call for limits on the term of office of party officials. Gorbachev's election proposals go at least as far, if not further, in unsettling the party officals.

It took several years for the opponents of Khrushchev to surface and organize against him. Gorbachev runs the same risk. He has decided to go for broke and push as much through as he can in as short as possible a period – including the possibility of a general amnesty. We can wish him well, but wonder if the system will overwhelm him before he overwhelms it.

SOVIET BALANCE OF TRADE WITH EASTERN EUROPE FOR THE 1ST NINE MONTHS OF 1981-1986

(in million rubles)

	Exports from U.S.S.R.						Imports to U.S.S.R.					
	1981	1982	1983	1984	1985	1986	1981	1982	1983	1984	1985	1986
Bulgaria	3225	3546	4141	4661	4788	4842	2751	3245	3720	4122	4425	4442
Czecho-slovakia	3108	3728	4270	4948	5002	5116	3060	3513	4018	4422	4806	4778
GDR	4037	4587	4992	5385	5619	5852	3861	4270	4879	5576	5619	5228
Hungary	2445	2711	2951	3298	3318	3486	2413	2710	2957	3178	3513	3600
Poland	3667	3581	3868	4450	4804	5091	2419	2882	3485	3843	3960	4316
Romania	1111	1013	1199	1352	1351	2062	1237	1323	1280	1340	1657	1859
	17,593	19,166	21,421	24,094	24,882	26,449	15,741	17,933	20,339	22,481	23,980	24,223
Balance of Trade	+1852	+1283	+1082	+1613	+902	+2,226						